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No. 87-618

Supreme Court, U.S.
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In the
Supreme Court of the United States
October Term 1987

MEDICAL INCORPORATED,

Petitioner,

vs.

THE REGENTS OF THE
UNIVERSITY OF MINNESOTA,

Respondent.

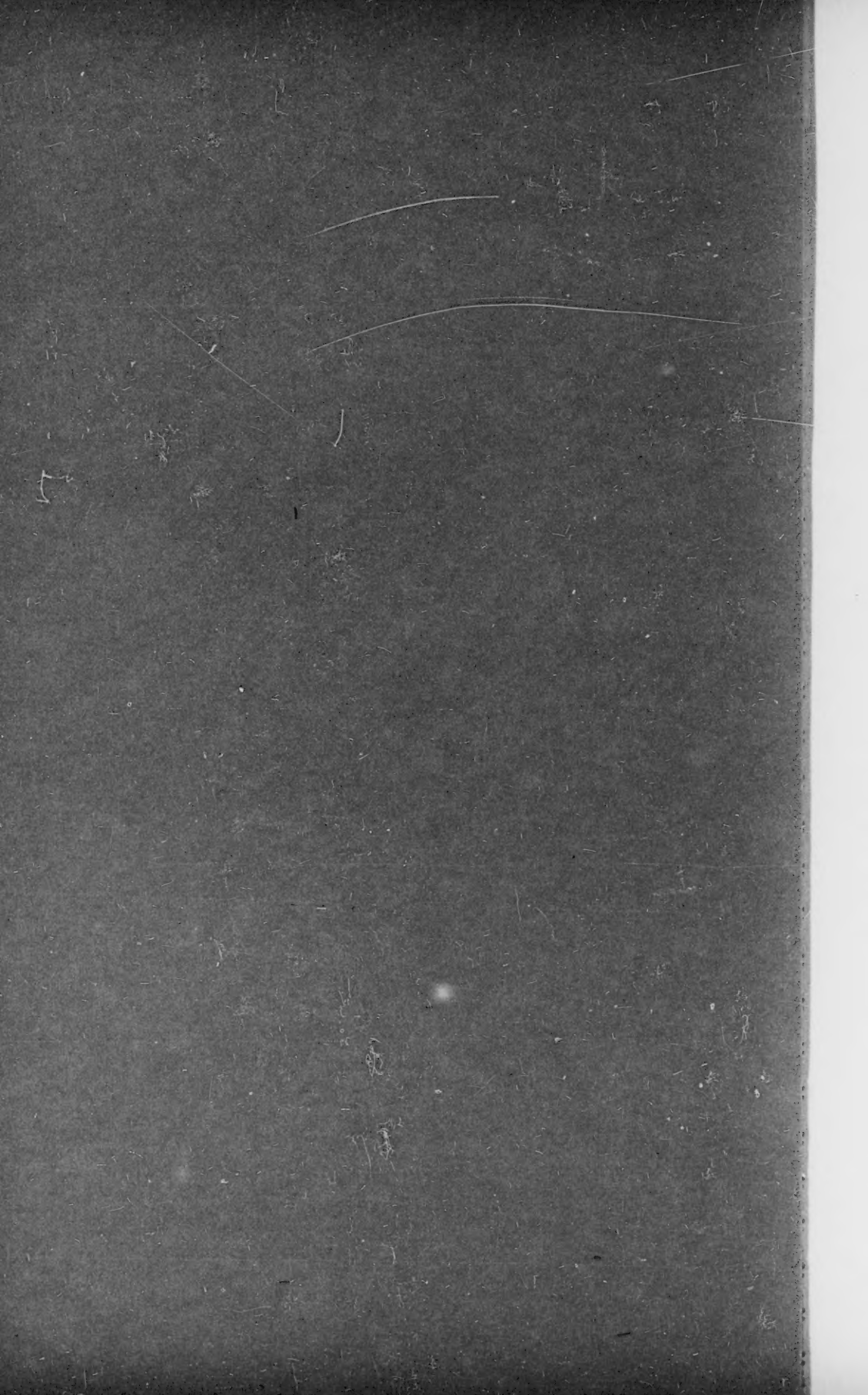
On Petition For A Writ of Certiorari
To The Minnesota Court Of Appeals

BRIEF IN OPPOSITION

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QUESTION PRESENTED FOR REVIEW

Whether a grant-back clause in a patent license agreement that requires assignment of a narrow improvement patent that is within the scope of the claims of the licensed patent is per se patent misuse because the term of the assigned patent expires after the term of the licensed patent, in the absence of any allegations or evidence of monopolistic or anti-competitive intent or effect.



TABLE OF CONTENTS

	<u>PAGE</u>
QUESTION PRESENTED FOR REVIEW.....	i
TABLE OF CONTENTS.....	ii
TABLE OF AUTHORITIES.....	iii
STATEMENT OF THE CASE.....	1
REASONS FOR DENYING THE WRIT.....	9
1. SUMMARY OF THE ARGUMENT.....	9
2. MEDICAL'S PETITION FOR A WRIT OF CERTIORARI SHOULD BE DENIED BECAUSE THE DECISION OF THE MINNESOTA COURT OF APPEALS IS NOT IN CONFLICT WITH APPLICABLE DECISIONS OF THIS COURT.....	10
3. MEDICAL'S PETITION SHOULD BE DENIED BECAUSE THIS CASE PRESENTS A POOR RECORD FOR REVIEW OF THE APPEALED ISSUE.....	24
4. MEDICAL'S PETITION FOR A WRIT OF CERTIORARI SHOULD BE DENIED BECAUSE THIS COURT HAS ALREADY DENIED MEDICAL REVIEW ON THIS ISSUE.....	26
CONCLUSION.....	26

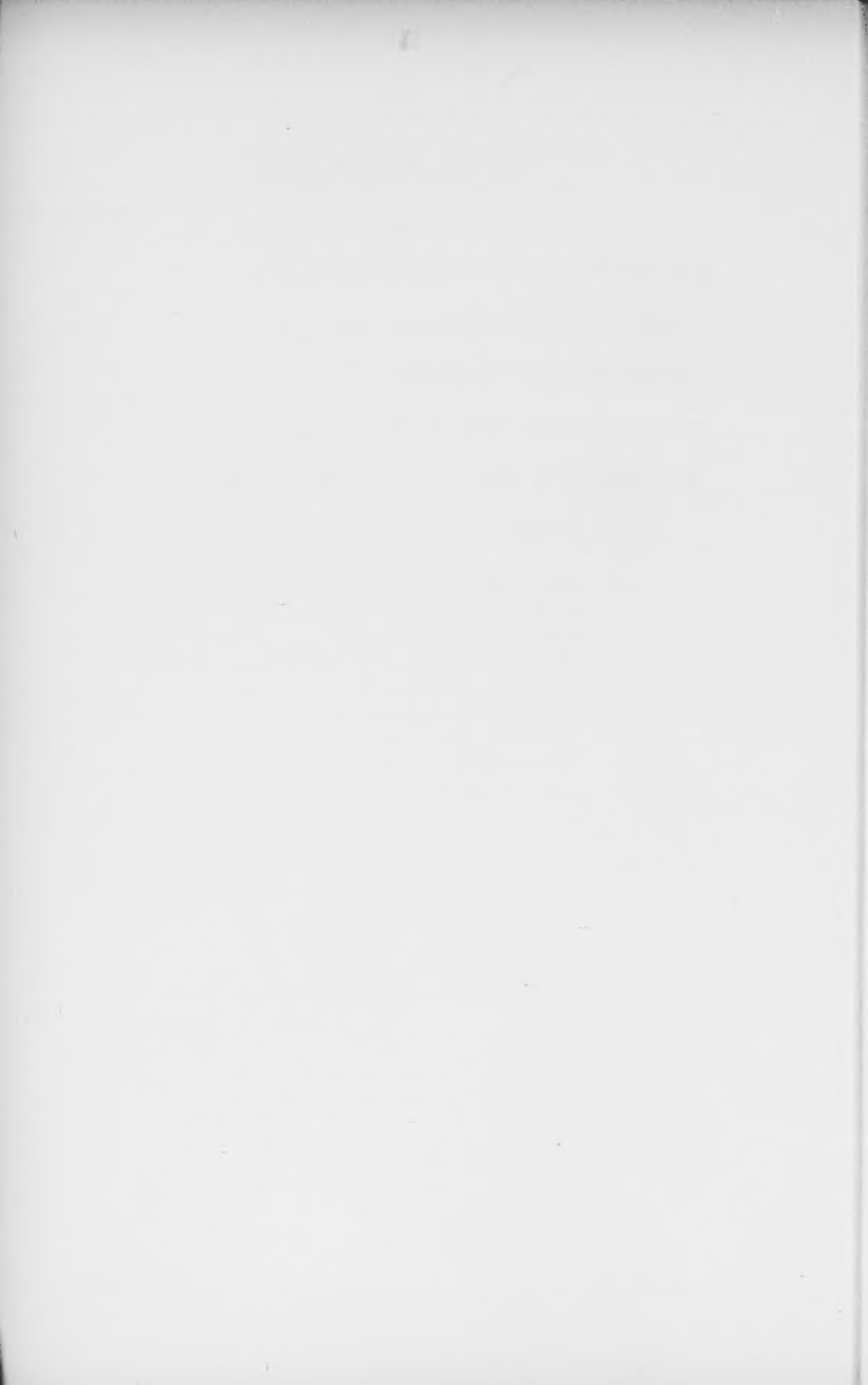


TABLE OF AUTHORITIES

	<u>PAGE</u>
<u>Bio-Rad Laboratories, Inc. v.</u> <u>Nicolet Instrument Corp.,</u> <u>739 F.2d 604, cert. denied,</u> <u>469 U.S. 1038</u> (1984).....	11
<u>Brulotte v. Thys Co.,</u> <u>379 U.S. 29 (1964)</u>	14, 15, 16, 17
<u>Duplan Corporation v.</u> <u>Deering Milliken, Inc.,</u> <u>444 F. Supp. 648</u> <u>(D.S.C. 1977),</u> <u>aff'd in part and</u> <u>rev'd in part</u> <u>on other grounds,</u> <u>594 F.2d 979</u> <u>(4th Cir. 1979),</u> <u>cert. denied sub nom.</u> <u>Ateliers Roannois de</u> <u>Constructions Textiles</u> <u>v. Duplan, 444 U.S. 1015</u> (1980).....	22
<u>In re Reclosable Plastic</u> <u>Bags, 192 U.S.P.Q. 674</u> <u>(U.S. Int'l. Trade Comm.</u> 1977).....	20



<u>Malco Manufacturing Co.</u> <u>v. National Connector</u> <u>Corp., 151 U.S.P.Q.</u> <u>255 (D. Minn. 1966)</u> <u>aff'd in part,</u> <u>rev'd in part on</u> <u>other grounds,</u> <u>392 F.2d 766</u> <u>(8th Cir. 1968)</u> <u>cert. denied 393 U.S. 923</u> <u>(1968).....</u>	21
<u>Scott Paper Co. v. Marcalus</u> <u>Mfg. Co., 326 U.S. 249</u> <u>(1945).....</u>	16
<u>Sperry Products, Inc. v.</u> <u>Aluminum Co. of</u> <u>America, 171 F. Supp. 901</u> <u>(N.D. Ohio 1959),</u> <u>aff'd in part,</u> <u>rev'd in part</u> <u>on other grounds, 285 F.2d</u> <u>911 (6th Cir. 1960),</u> <u>cert. denied,</u> <u>368 U.S. 890</u> <u>(1961).....</u>	21
<u>Swofford v. B & W, Inc.,</u> <u>251 F. Supp. 811</u> <u>(S.D. Tex. 1966), <u>aff'd,</u></u> <u>395 F.2d 362</u> <u>(5th Cir. 1968),</u> <u>cert. denied,</u> <u>393 U.S. 935</u> <u>(1966).....</u>	20
<u>Transparent-Wrap Machine Corp.</u> <u>v. Stokes & Smith Co.,</u> <u>329 U.S. 637 (1947).....</u>	12, 14, 16, 17, 20, 22, 24



<u>USM Corp. v. SPS Technologies,</u> <u>Inc., 694 F.2d 505</u> <u>(7th Cir. 1982), cert.</u> <u>denied, 462 U.S. 1107</u> <u>(1983).....</u>	23, 25
<u>Windsurfing International, Inc.</u> <u>v. AMF Incorporated,</u> <u>782 F.2d 995,</u> <u>(Fed. Cir.), cert.</u> <u>denied sub nom.</u> <u>Bic Leisure Products,</u> <u>Inc. v. Windsurfing</u> <u>International Inc.,</u> <u>U.S. _____,</u> <u>106 S.Ct. 3275</u> <u>(1986).....</u>	13, 23, 25
<u>Zajicek v. Koolvent Metal</u> <u>Awning Corp., 283 F.2d 127</u> <u>(9th Cir. 1960),</u> <u>cert. denied, 365 U.S. 859</u> <u>(1961).....</u>	21, 22
<u>Zenith Radio Corp. v. Hazeltine</u> <u>Research, Inc., 395 U.S. 100</u> <u>(1969).....</u>	16

SECONDARY AUTHORITIES

<u>Chisum, 4 Patents: A Treatise</u> <u>on the Law of Patentability,</u> <u>Validity and Infringement</u> <u>(1987).....</u>	19, 20
<u>Comment, The Validity of</u> <u>Grant-Back Clauses</u> <u>In Patent Licensing</u> <u>Agreements, 42 U. Chi.</u> <u>L. Rev. 733</u> <u>(1975).....</u>	17, 18



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Rosenberg, 2 Patent Law
Fundamentals,
§ 16.02[2] (2d ed.
1984)..... 19

Stedman, Acquisition of Patents
and Know-How by Grant,
Fraud, Purchase and
Grant-Back, 28 U.
Pitt. L. Rev. 161
(1969)..... 18



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BRIEF IN OPPOSITION

A. Statement of the Case

In 1971 petitioner Medical Incorporated ("Medical") was created to manufacture heart valves developed at the University of Minnesota which were covered



by patents owned by respondent the Regents of the University of Minnesota ("University"), including U.S. Patent No. 3,476,143 (the "Kaster" patent). The parties entered into an agreement that licensed the patents, transferred technology to Medical, provided that the University would license any improvements to Medical, and, in turn, required Medical to pay royalties on heart valves that it manufactured and sold and to assign improvement patents to the University. Pl. Exh. 45.

In 1975 the parties amended the License Agreement. Pl. Exh. 67. The amendment inter alia reaffirmed Medical's obligation to pay the University royalties on the heart valves it was manufacturing. Despite having sold over \$60,000,000 worth of heart valves between 1971 and 1984, Medical never paid the University any royalties.



No evidence was introduced at trial that Medical ever questioned or complained about the assignment provision during the 1971 license negotiations, despite the fact that Medical actively participated in the drafting and revising of the 1971 License Agreement and was represented by its counsel, Charles Andrews (currently President of Medical) during the negotiations with the University. Trial Tr. pp. 828-30. Indeed, the Chief Patent Officer of the University (a non-lawyer), who represented the University in the 1971 negotiations, recalled that Medical had proposed the draft License Agreement from which the parties worked, which included the improvement patent assignment clause. See Pl. Exh. 46; Trial Tr. p. 272. Medical similarly did not argue at trial that it had sought to eliminate the improvement patent assignment clause during the negotiations surrounding the



1975 amendment. There was thus no evidence at trial that the University in any way required the inclusion of the assignment provision as a condition to entering into the License Agreement.

In 1982 the University sued Medical for breach of the terms of the License Agreement, as amended. During the course of discovery the University learned for the first time that Medical had procured a patent (U.S. Patent No. 4,240,161, the "Huffstutler patent") covering a narrow improvement to the Kaster patent. The University asserted its right to the patent under the assignment clause.

After trial in November 1984, the jury determined that the License Agreement obligated Medical to pay royalties on the heart valves that it manufactured and sold, and that all of the heart valves manufactured by Medical were covered by

the claims of the Kaster patent. The jury awarded the University \$2.9 million in royalties through the date of trial and Medical was ordered to continue to pay royalties for the duration of the License Agreement.^{1/} Additionally, the jury found that the Huffstutler patent was an improvement patent that should be assigned to the University.

Although Medical raised the affirmative defense of patent misuse in its Answer, it introduced little evidence and sought no jury instruction or special verdict question on the misuse issue at trial. A-44. It neither alleged nor

^{1/} The award of royalties was appealed to and has been affirmed by the Minnesota Court of Appeals (See Opinion filed February 11, 1986, A-11 - A-60), and this Court previously denied Medical's Petition for a Writ of Certiorari that raised issues related to the royalties award. Medical currently raises no issues for review relating to the royalties under the License Agreement, as amended and this judgment is now final.



introduced any evidence that the assignment clause had anticompetitive purpose or effect. A-114. Nonetheless, on its initial appeal, Medical asserted that various terms of the License Agreement, as amended, constituted patent misuse, including the assignment clause. The Minnesota Court of Appeals found no patent misuse, noting inter alia that patent assignment clauses are not per se unlawful. A-48. Because of the paucity of evidence in the record on the assignment issue (A-49), the Court of Appeals felt unable to make a finding and remanded that question to the trial court, seeking a technical comparison of the Huffstutler and Kaster patents to determine whether Medical had met its burden of proof on its affirmative defense of patent misuse. On remand, the trial court determined that Medical had not met its burden. Instead the University had established at trial,



based on its expert testimony and numerous admissions by Medical to the Food and Drug Administration, that the invention disclosed by the Huffstutler patent is a narrow refinement of the Kaster patent, specifying a more precise disc shape and pivot projections. A-73 - A-79.

Prior to the remand, Medical sought review by this Court of the same issue on which it currently seeks review:

The parties' heart valve patent licensing agreement requires the grant-back of Petitioner's 'entire right, title and interest' to an improvement patent. The question presented is whether a license agreement containing such a provision^{2/} is invalid and misuse of patent.

^{2/} Petition for a Writ of Certiorari of Medical Incorporated filed on August 20, 1986. (The University disagrees with Medical's assertion that a finding of misuse would invalidate the license agreement; on the instant facts it would merely invalidate the assignment of the Huffstutler patent.)



On October 14, 1986, this Court denied Medical's Petition.

Medical appealed the trial court's findings on the remanded issue (the technical comparison of the Kaster and Huffstutler patent), along with the rulings on two Rule 60 motions it had brought. Additionally the parties had a post-trial dispute concerning Medical's ongoing obligation to pay the University royalties because Medical, by changing its accounting procedures, claimed that it owed the University no royalties for the entire eighteen months that had elapsed since the judgment. The trial court confirmed that Medical owed the University an additional \$685,691 in post-judgment royalties. Findings of Fact, Conclusions of Law and Order for Judgment and Judgment dated August 27, 1986. All of these issues were resolved by the Minnesota Court of Appeals in the University's



favor; the Minnesota Supreme Court denied Medical's Petition for Review; and it is from the Court of Appeals' ruling on the assignment issue that Medical now again seeks review from this Court.

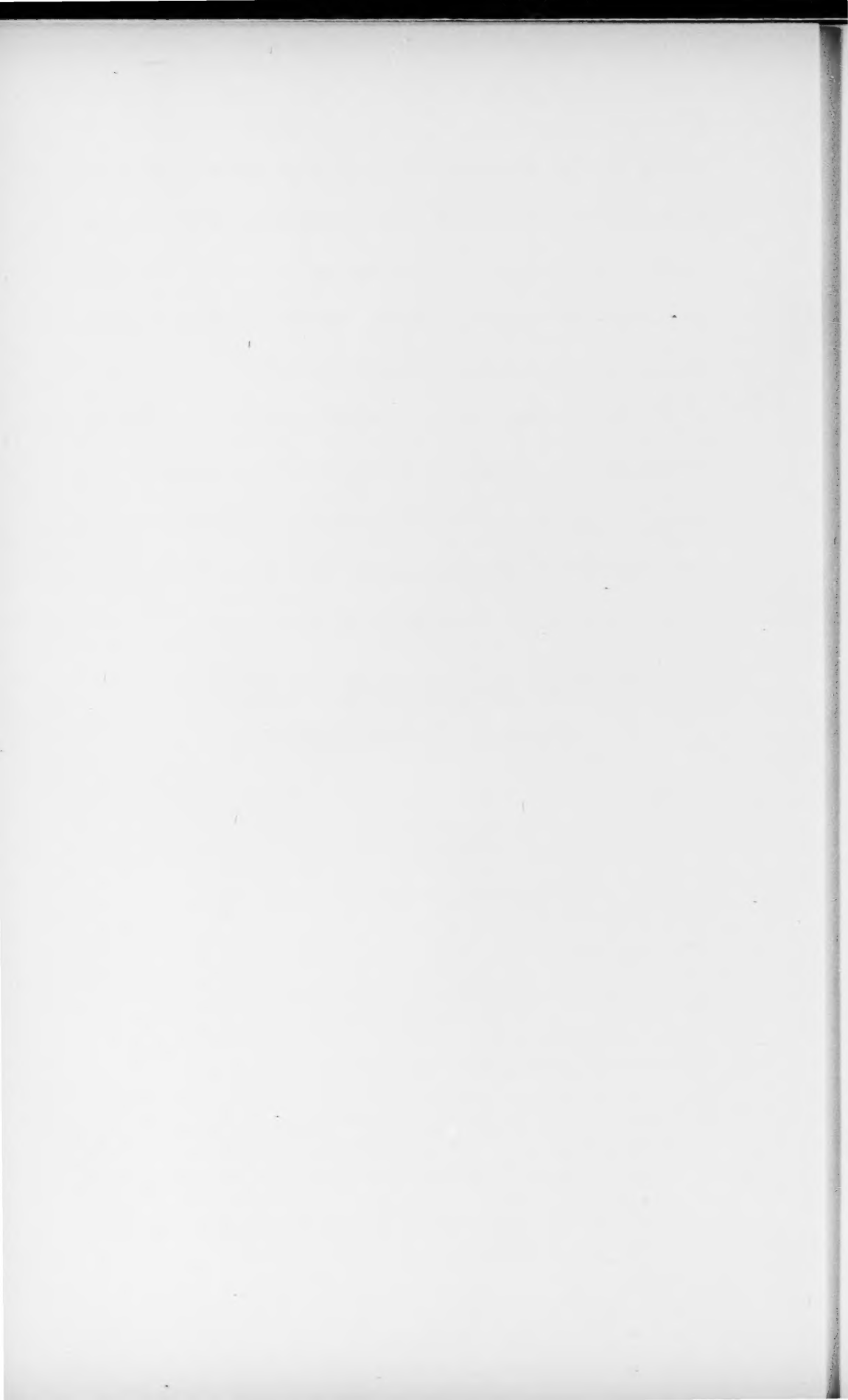
This Petition therefore represents Medical's final, vexatious attempt to delay paying the University royalties on the patent that has been the foundation of its commercial operations.^{3/}

B. Reasons for Denying the Writ

1. Summary of the Argument

This Court should deny Medical's Petition for three reasons. First, the questioned decision of the Minnesota Court of Appeals is not in conflict with the applicable decisions of this Court. In

^{3/} The trial court interpreted the terms of the Supersedeas Bond provided by Medical to preclude collection on the bond until after Medical exhausted all appeal and review procedures, including seeking discretionary review by this Court.



fact, to find for Medical, the Court would have to overrule the leading case in the area. The Minnesota Court of Appeals' application of established federal law to the particular facts before it is not erroneous, nor does it raise any important issue justifying further review by this Court. Second, even if this Court wished to reconsider its holding in the leading case, the record below on the misuse issue is inadequate for that purpose. Third, Medical has already unsuccessfully sought review from this Court of the same issue.

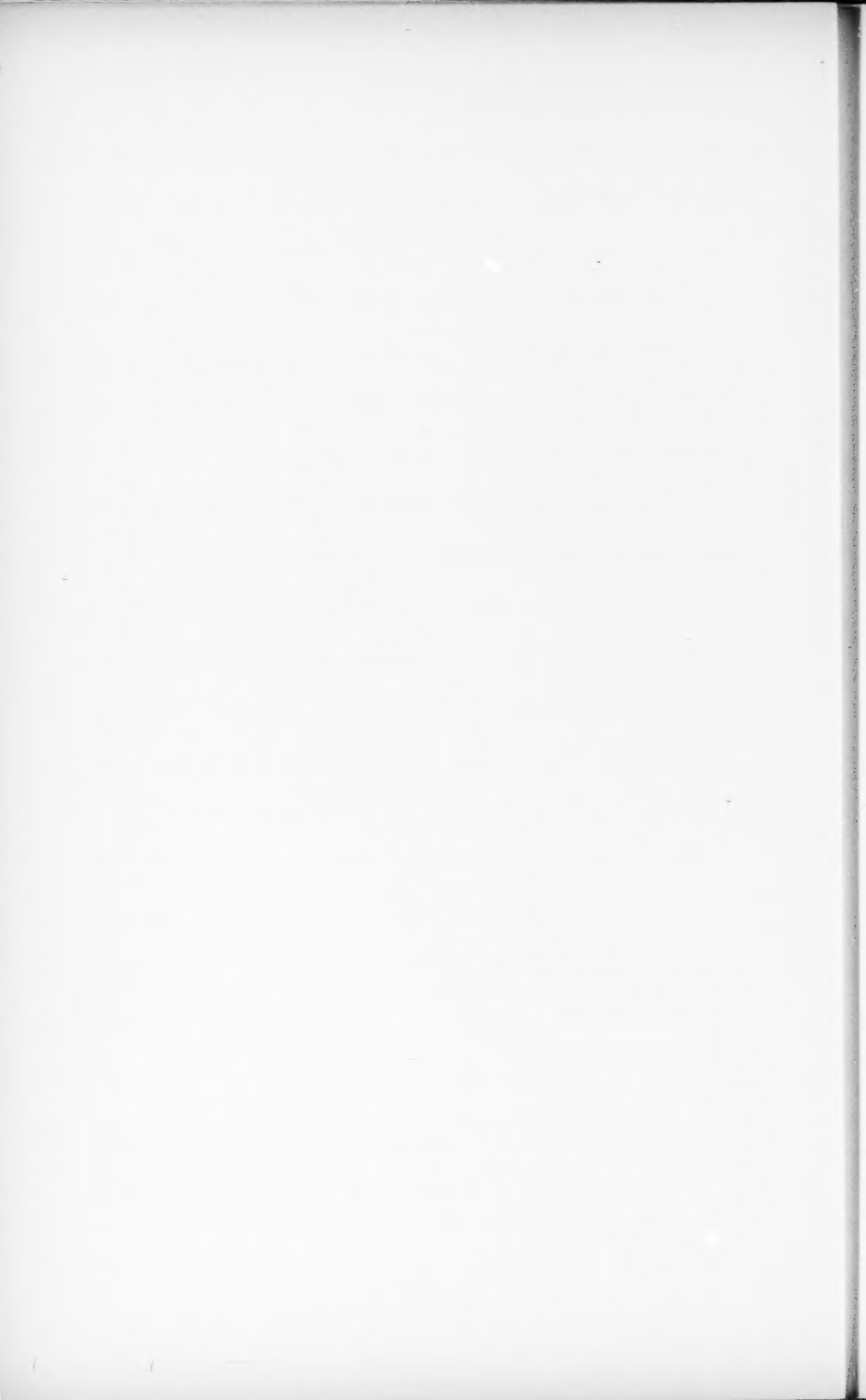
2. Medical's Petition For A Writ Of Certiorari Should Be Denied Because The Decision Of The Minnesota Court of Appeals Is Not In Conflict With Applicable Decisions Of This Court.
-

Medical argues that the decision of the Minnesota Court of Appeals is in conflict with applicable decisions of this Court. The Minnesota Court of Appeals found that assignment clauses in patent

license agreements are not per se misuse:
"the mere existence of a grant-back provision, such as this one used by the University here, is not enough to prove patent misuse." A-114. Based on this principle, it then affirmed the trial court's findings that, on the facts of this case, Medical had failed to prove its affirmative defense of patent misuse.^{4/}

Medical claims that this finding conflicts with applicable decisions of this Court because the duration of the assigned improvement patent exceeds that of the licensed patent. Almost by definition, an improvement patent will expire after the basic patent. By seeking review of this "duration" issue, Medical essentially seeks a per se rule that

^{4/} For authority that patent misuse is an affirmative defense, see Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 615, cert. denied, 469 U.S. 1038 (1984).



patent licenses cannot include clauses providing for assignment of improvement patents to the licensor. This Court has already refused to make the requested per se holding, in Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) ("Trans-Wrap"). Trans-Wrap holds that:

the inclusion in the license of the condition requiring the licensee to assign improvement patents is not per se illegal and unenforceable.

329 U.S. at 648. The Court reasoned in Trans-Wrap that patents are legalized monopolies for limited periods. As such, they are freely assignable and acquirable:

One who uses one patent to acquire another is not extending his patent monopoly to articles governed by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monopoly to acquire another legalized monopoly.



329 U.S. at 644. The Court concluded that, to find patent misuse in a license agreement with an assignment clause, the clause must be "employed with the purpose or effect of violating the anti-trust laws." 329 U.S. at 646. The Minnesota Court of Appeals found "nothing of this nature alleged in this case" (A-114), and determined that Medical had not shown the assignment clause to constitute patent misuse. The Court of Appeals' analysis is consistent with that of the Federal Circuit in Windsurfing International, Inc. v. AMB, Inc., 782 F.2d 995 (Fed. Cir. 1986), cert. denied sub nom. Bic Leisure Products, Inc. v. Windsurfing International, Inc., ___ U.S. ___, 106 S.Ct. 3275 (1986), in which the court stated:

The doctrine of patent misuse is an affirmative defense to a suit for patent infringement, . . . and requires that the alleged infringer show that the patentee has



impermissibly broadened the "physical or temporal scope" of the patent grant with anti-competitive effect. . . .

To sustain a misuse defense involving a licensing arrangement not held to have been per se anti-competitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market. Id. at 1001-1002. Citations omitted.

In light of Trans-Wrap, it is simply wrong for Medical to argue that a conflict exists between the applicable decisions of this Court and the decision of the Minnesota Court of Appeals. Nor is Medical's argument that the decision of the Minnesota Court of Appeals is in conflict with Brulotte v. Thys Co., 379 U.S. 29 (1964) persuasive. Brulotte has nothing to do with assignment clauses in patent licenses, and it never cites Trans-Wrap, although Justice Douglas authored both decisions. In Brulotte, the



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license agreement required the licensee to continue to pay royalties for the use of machines after the expiration of all of the patents incorporated in the machines. The licensor thus sought to extract royalties from the licensee after it had ceased to be the owner of any valid patents relating to the licensed products. This was the wrongful projection of royalties condemned by Brulotte. In contrast, with an assignment provision the licensor continues to receive royalties because it is the owner of a valid unexpired patent. A-114.^{5/}

^{5/} Medical argues that the facts of this case are particularly troubling because it now finds itself in the position of an infringer of the Huffstutler patent, which it refers to as "its own" patent. First, Medical is not the owner of the Huffstutler patent: the University is. Second, the License Agreement, as amended, provided that any improvement patents assigned by Medical to the University were to be "subject to this agreement without payment of additional royalty." Pl. Exh. 45, ¶ 8. The University argued that the License

The other decisions of this Court cited by Medical are similarly irrelevant to the grant-back situation. Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945), a pre-Trans-Wrap decision, held that a patent assignor was not estopped from arguing that the prior art of an expired patent anticipated and narrowed the claims of the assigned patent, so as to render the assignor's manufactured device non-infringing of the assigned patent. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969)

5/ (Footnote Continued)

Agreement, as amended was properly interpreted to extend to the expiration of the Huffstutler patent. Medical successfully argued against this interpretation. It is disingenuous for Medical now to complain that "the extension here has even greater potential for oppression of the licensee than that which Brulotte condemned, since Medical cannot simply pay a previously negotiated royalty to continue using the teachings of the improved patent." Petition at 15. Medical itself argued for this result.



condemned conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent. However, such arrangements, if not conditioned, are permissible. Neither case bears any factual resemblance to Trans-Wrap or to the instant case.

On page 11 of its petition, Medical cites numerous "post-Brulotte" authorities which it claims buttress its position that assignment of the Huffstutler patent to the University is unlawful. None of these cases involves an assignment or "grant-back" clause of improvement patents. Medical's citation of commentators that it claims have "repeatedly questioned" Trans-Wrap is similarly misleading. For example, the author of The Validity of Grant-Back Clauses In



Patent Licensing Agreements^{6/} argues that "grant-backs should be presumptively permissible because economic analysis strongly supports the proposition that grant-backs do not violate the public policy embodied in the patent laws." 42 U. Chi. L. Rev. at 734. Stedman's article^{7/} states that its concern is coerced grant-backs, where there is evidence that the licensor refuses to license except on the condition of the grant-back. 28 U. Pitt. L. Rev. at 169. There is no evidence of such conditioning or coercion in this case; in contrast, the Minnesota Court of Appeals found evidence of "considerable bargaining by the parties over a number of terms in the agreement."

^{6/} Comment, 42 U. Chi. L. Rev. 733 (1975).

^{7/} Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back, 28 U. Pitt. L. Rev. 161, 169 (1969).



A-47. Rosenberg^{8/} states that a restrictive assignment provision may violate the antitrust laws if it perpetuates a licensor's dominant market position or otherwise effects a restraint of trade or creates a monopoly. Again, no antitrust violations have ever been alleged in this case. The University is not even in the heart valve manufacturing business and certainly has no monopoly. Further, the License Agreement licensed any improvements made by the University to Medical. Pl. Exh. 45, ¶ 7. Rosenberg further notes "improvement patents may be viewed as simply a species of property given as consideration for the right to a basic patent. Grant-back clauses are deemed not to be per se violations of the Sherman Act". § 16.02[2] at 16-26 (citations omitted). See also Chisum, 4 Patents: A

^{8/} 2 Patent Law Fundamentals § 16.02[2] at pp. 16-26, 16-26.1 (2d. ed. 1984).



Treatise on the Law of Patentability,
Validity and Infringement (1987)

§ 19.04[3] at p. 19-149 and cases cited therein: "In suits between patentees and infringers or licensees, the lower courts generally follow Trans-Wrap in rejecting antitrust and misuse defenses to grant-back clauses."

Additionally, numerous post-Trans-Wrap and post-Brulotte cases have sanctioned assignment clauses in patents. See In re Reclosable Plastic Bags, 192 U.S.P.Q. 674, 679 (U.S. Trade Comm. 1977) (Where "there is no evidence that the grant-back provision constitutes an undue restraint or exerts an adverse effect on trade or commerce, . . . grant-back provisions are legal even when they cause the licensee to give up complete right to his improvement invention to the licensor. . ."); Swofford v. B & W, Inc., 251 F. Supp. 811, 820-21 (S.D. Tex. 1966),



aff'd, 395 F.2d 362 (5th Cir. 1968), cert. denied, 393 U.S. 935 (1968) ("The Supreme Court of the United States . . . decided that the obtaining of an improvement patent from a licensee by assignment is clearly permitted by the patent laws in the case of [Trans-Wrap] . . ."); Malco Manufacturing Co. V. National Connector Corp., 151 U.S.P.Q. 255, 263 (D. Minn. 1966), aff'd in part, rev'd in part on other grounds, 392 F.2d 766 (8th Cir. 1968), cert. denied, 393 U.S. 923 (1968) (Patent license grant-back clause requiring assignment of improvement patents not illegal); Sperry Products, Inc. v. Aluminum Co. of America, 171 F. Supp. 901, 936-37 (N.D. Ohio 1959), aff'd in part, rev'd in part on other grounds, 285 F.2d 911 (6th Cir. 1960), cert. denied, 368 U.S. 890 (1961) (No misuse found in grant-back requiring assignment of foreign improvement patents); Zajicek v. Koolvent



Metal Awning Corp., 283 F.2d 127 (9th Cir. 1960), cert. denied, 365 U.S. 859 (1961); and Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 700 (D.S.C. 1977), aff'd in part and rev'd in part, 594 F.2d 979 (4th Cir. 1979), cert. denied sub. nom. Ateliers Roannois re Constructions Textiles v. Duplan, 444 U.S. 1015 (1980) (Noting in dictum that if patent assignments sought had been limited to improvement patents relating to the subject matter of the licensed patents, such assignments would "in all probability . . . have satisfied the test in [Trans-Wrap]").

In contrast, Medical cites no case that holds that a license agreement with an assignment clause requiring the grant-back of narrow improvement patents is patent misuse merely because the assigned patent expires after the licensed patent.



Finally, recent judicial opinions have questioned the validity of the economic and public policy analysis that allegedly support an expansion of the doctrine of patent misuse. See e.g. Windsurfing International, Inc. v. AMF Incorporated, 782 at fn. 9, p. 1001 ("Recent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive"); USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 510-12 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983).

This case presents the least egregious facts likely to arise in an assignment case: (1) a non-profit University is the creator of the basic invention; (2) the University as assignee of the improvement patent is not competing as a heart valve manufacturer; (3) the assignee started the assignor in business; (4) there is no allegation or evidence of

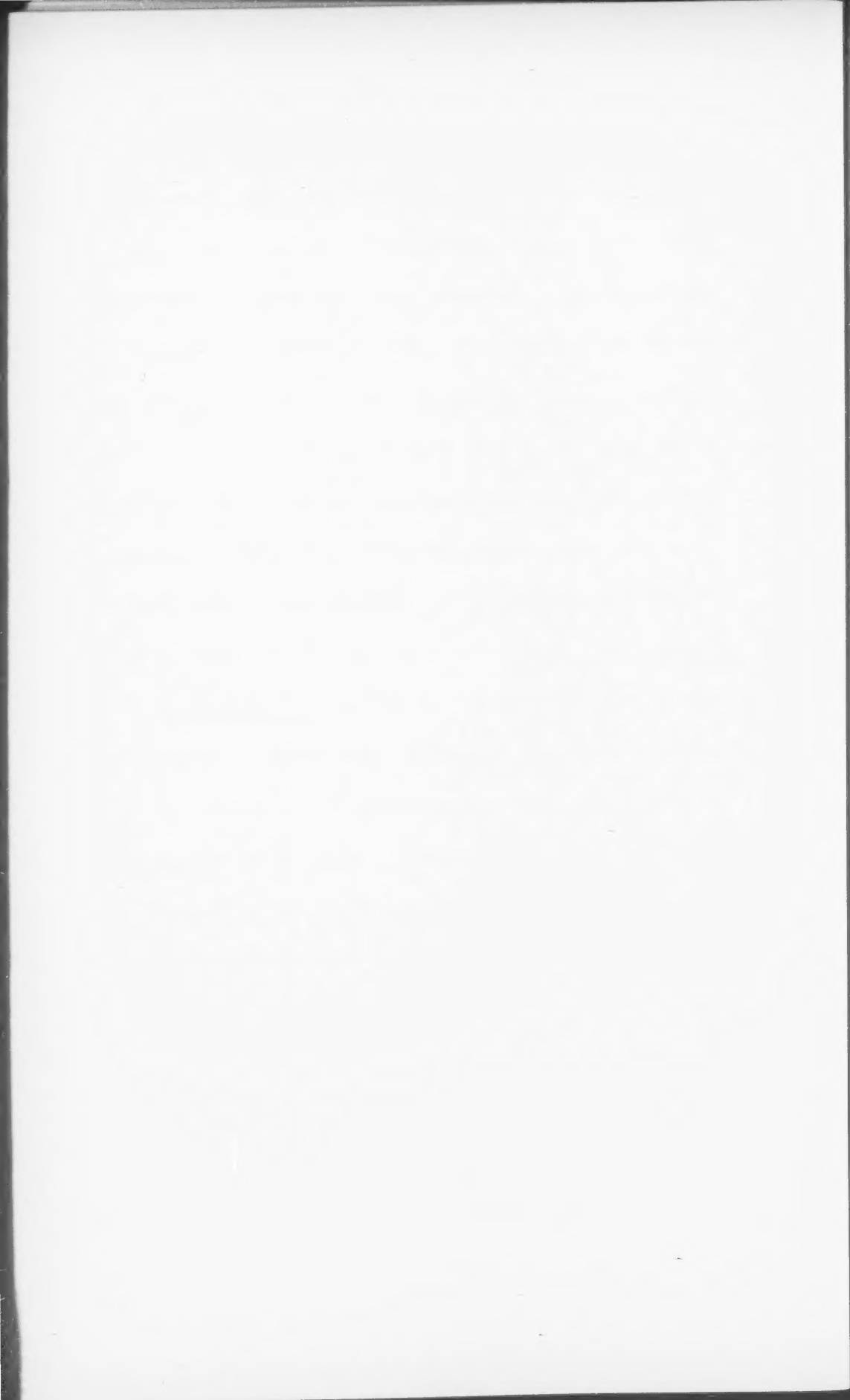


any coercion; (5) the assignee also agreed to provide improvements to the assignor; and (6) the assigned invention is a particularly narrow improvement. There is thus no error in the Minnesota Court of Appeals resolution of the misuse issue nor does the holding below raise an important issue requiring resolution by this Court.

In sum, the decision of the Minnesota Court of Appeals is premised upon, rather than in conflict with, the applicable decision of this Court: Trans-Wrap. A clause in a license agreement requiring assignment of improvement patents is not per se patent misuse, and the Minnesota state courts did not err in refusing to find patent misuse on the facts of this case.

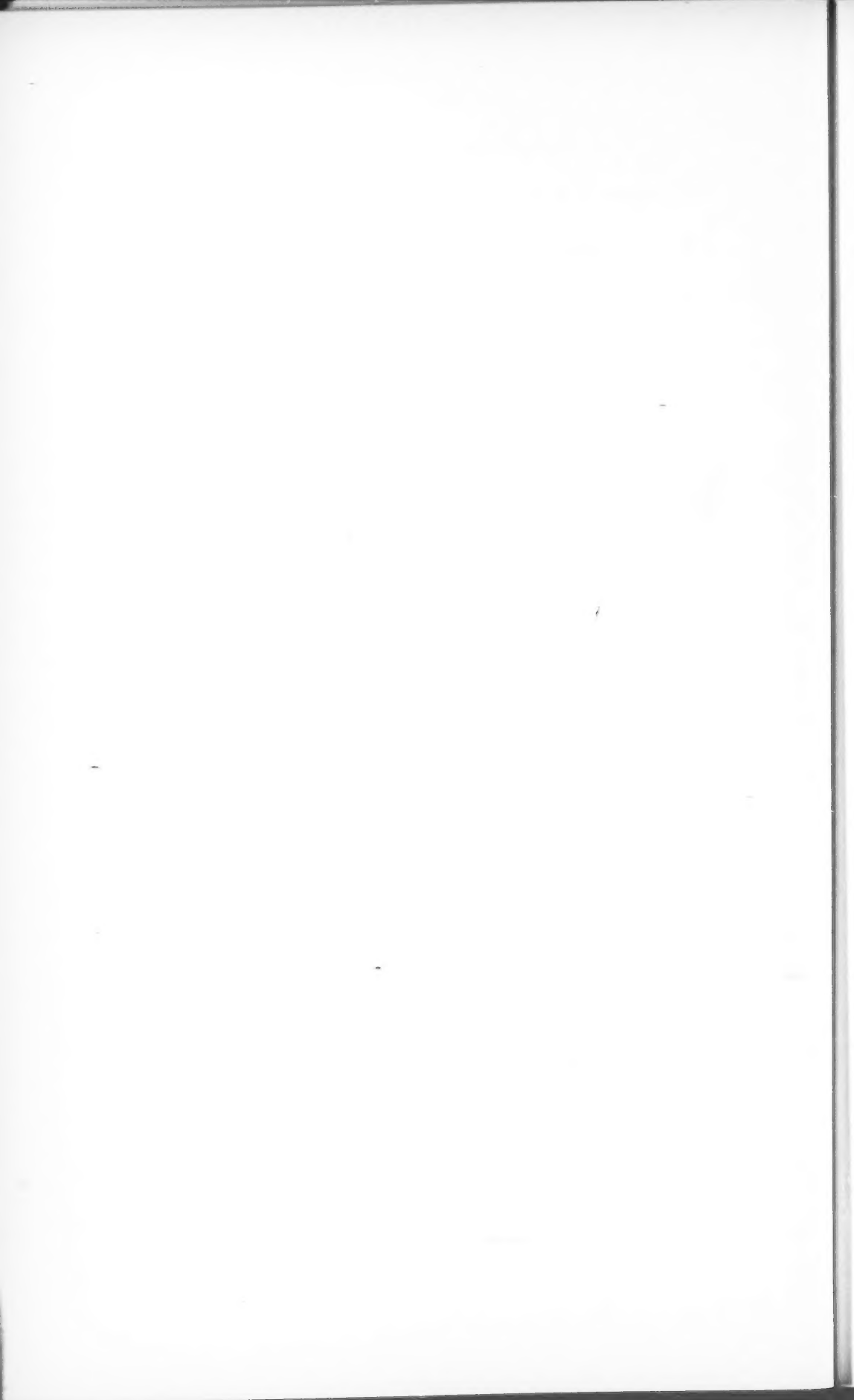
3. Medical's Petition Should Be Denied Because This Case Presents A Poor Record For Review Of The Appealed Issue.

Although Medical plead patent misuse



as an affirmative defense, it did not allege that the purported misuse had any anti-competitive purpose or effect (A-114) and did not seek a jury instruction or special verdict interrogatory on the issue (A-44). It first vigorously argued patent misuse on its initial substantive appeal to the Minnesota Court of Appeals.

This case presents no developed record on antitrust issues as a background or basis to analyze the misuse question, despite the fact that the patent misuse doctrine is rooted in the antitrust laws. See USM Corp. v. SPS Technologies, Inc., 694 F.2d at 511 (Noting convergence of antitrust and patent misuse doctrines); Windsurfing International, 782 F.2d at 1001-02. The misuse issue raised by this Petition is an afterthought that Medical argued for the first time on appeal after the jury's determination that it indeed was obligated to honor its contractual



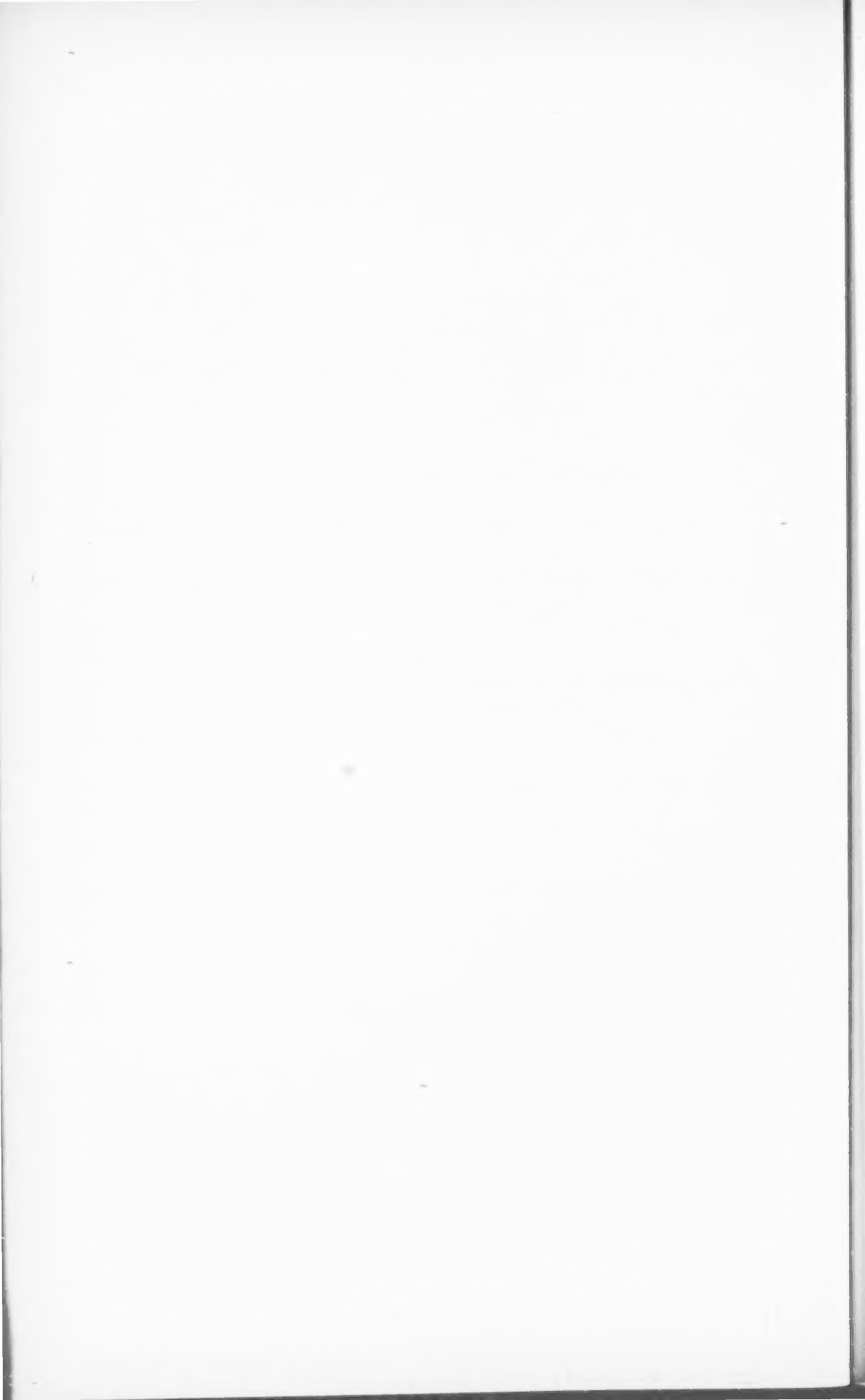
obligations to the University. Such an afterthought forms a poor basis for review.

4. Medical's Petition For A Writ Of Certiorari Should Be Denied Because This Court Has Already Denied Medical Review On This Issue.

While the University believed the issue was premature, Medical has already sought this Court's review of the identical issue that it now raises: whether it is patent misuse for a license agreement to require assignment of improvement patents. See p. 7 supra. This Court denied Medical's Petition. No good purpose can be served by changing that decision.

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari to the Minnesota Court of Appeals should be denied.



Dated: November 13, 1987

Respectfully submitted,

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